

# **City of Fraser, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Fraser, Michigan

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# City of Fraser, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fraser, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fraser, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Fraser, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules of the General Fund, the Major Streets Fund, and the Drug Forfeiture Fund, the pension system schedule of funding progress, and the pension system schedule of employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fraser, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 28, 2008

# **City of Fraser, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of City of Fraser, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City on a government-wide basis. They are presented on a full accrual basis and designed to present a long-term view of the City's finances.

Fund financial statements follow the above-mentioned statements. They are presented on a modified accrual basis and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operation in more detail than the government-wide financial statements.

The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for benefit of those outside of the government.

### **The City of Fraser as a Whole**

The City's combined net assets increased by \$868,000, from \$23.877 million at June 30, 2007 to \$24.745 million at June 30, 2008. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$836,000 in net assets, or 5.4 percent, during fiscal year 2008. This increase was primarily the result of continued diligence in the area of expenditure control, disciplined budgeting practices, and adherence to the long-term financial plan. The business-type activities experienced a \$32,000 increase in net assets. This was primarily due to capitalizing \$297,000 of water and sewer lines contributed by developers. In a condensed format, the table below shows the comparison of assets (in thousands of dollars) as of June 30, 2008 to the prior year:

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

TABLE I (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current assets	\$ 5,621	\$ 6,029	\$ 1,127	\$ 1,419	\$ 6,748	\$ 7,448
Noncurrent assets	<u>20,940</u>	<u>20,513</u>	<u>10,012</u>	<u>9,816</u>	<u>30,952</u>	<u>30,329</u>
Total assets	26,561	26,542	11,139	11,235	37,700	37,777
<b>Liabilities</b>						
Current liabilities	1,976	2,140	560	537	2,536	2,677
Long-term liabilities	<u>8,338</u>	<u>8,991</u>	<u>2,081</u>	<u>2,232</u>	<u>10,419</u>	<u>11,223</u>
Total liabilities	<u>10,314</u>	<u>11,131</u>	<u>2,641</u>	<u>2,769</u>	<u>12,955</u>	<u>13,900</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	13,756	12,531	7,741	7,390	21,497	19,921
Restricted	2,188	2,385	-	-	2,188	2,385
Unrestricted (deficit)	<u>303</u>	<u>495</u>	<u>757</u>	<u>1,076</u>	<u>1,060</u>	<u>1,571</u>
Total net assets	<u><b>\$ 16,247</b></u>	<u><b>\$ 15,411</b></u>	<u><b>\$ 8,498</b></u>	<u><b>\$ 8,466</b></u>	<u><b>\$ 24,745</b></u>	<u><b>\$ 23,877</b></u>

Unrestricted net assets of the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$303,000 at June 30, 2008. This represents a decrease of \$192,000.

# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in thousands of dollars) as of June 30, 2008 and 2007:

TABLE 2 (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 2,705	\$ 2,790	\$ 4,719	\$ 4,674	\$ 7,424	\$ 7,464
Operating grants and contributions	917	872	-	-	917	872
Capital grants and contributions	870	806	297	93	1,167	899
General revenue:						
Property taxes	11,546	11,134	-	-	11,546	11,134
State-shared revenue	1,428	1,450	-	-	1,428	1,450
Unrestricted investment earnings	365	437	24	62	389	499
Transfers and other revenue	321	310	(130)	(132)	191	178
Total revenue	18,152	17,799	4,910	4,697	23,062	22,496
<b>Program Expenses</b>						
General government	3,380	3,658	-	-	3,380	3,658
Public safety	8,259	7,851	-	-	8,259	7,851
Public works	3,687	3,374	-	-	3,687	3,374
Recreation	1,420	1,761	-	-	1,420	1,761
Community and economic development	291	304	-	-	291	304
Interest on long-term debt	279	318	-	-	279	318
Water and sewer	-	-	4,475	4,207	4,475	4,207
Senior housing	-	-	403	383	403	383
Total program expenses	17,316	17,266	4,878	4,590	22,194	21,856
<b>Change in Net Assets</b>	<b>\$ 836</b>	<b>\$ 533</b>	<b>\$ 32</b>	<b>\$ 107</b>	<b>\$ 868</b>	<b>\$ 640</b>

### Governmental Activities

The City's total governmental revenues increased by approximately \$353,000 over 2007. This is primarily attributed to property tax revenues generated from community growth, and increases in operating grants and capital grants. The increases were offset somewhat by decreases in state-shared revenues, unrestricted investment earnings, and other revenues. State-shared revenues have dropped by approximately \$22,000 and are indicative of the economic conditions throughout the state of Michigan.



# City of Fraser, Michigan

## Management's Discussion and Analysis (Continued)

Cash-related expenses increased by approximately \$28,000 from the last fiscal year. The City was able to reduce the level of expenditures by continually monitoring the budget very closely, not filling vacancies, additional modifications in health insurance and prescription drug co-pays, and other cost-reduction programs. These cost-cutting measures helped offset general inflationary increases such as wage increases and general incidental costs.

During the year, the City continued to meet the actuarial contribution to the defined benefit pension system.

### Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund and Senior Citizens' Housing Complex Fund. The City provides its residents water, which is purchased from the City of Detroit Water System, and sewage treatment through a contract with the Macomb County Public Works offices that contract with the City of Detroit Water and Sewage System. The rates for both water and sewer billed to residents increased during the fiscal year. The Water and Sewer Fund generated an operating loss of approximately \$246,000 during 2008, which is a decrease of approximately \$213,000 from 2007. The declining operating results of the Water and Sewer Fund resulted primarily from an increase in the cost of sewage disposal of approximately \$320,000 from 2007. As has been noted, it appears that we may be entering a period where we will not likely see revenues on the order of the past several years. We will certainly see an increase in the fixed cost of sewage disposal as we begin to pay for the expenses for the 15 Mile Road repair work, which has increased from approximately \$191,000 in 2006 to \$450,881 in 2008. The Administrative Consent Order (ACO) issued by the Michigan Department of Environmental Quality (MDEQ) that requires the City to establish a program to correct sanitary sewer overflows has progressed to the point of implementation during the 2008-2009 fiscal year. The water and sewer department is now on track to solving the sewage overflow problems and meeting the requirements of the ACO. We approved an agreement with Macomb County that will provide excess capacity for the City. This agreement, and the ACO, will require that the City expend upwards of \$10,000,000 to run a gravity main from the southeast section of the City to the 15 Mile Road interceptor in the northwest section of the City. The bonding cost for this project and the increase in sewage disposal costs for the excess capacity that is currently released as a sanitary sewer overflow will surely drive our water and sewer rates higher. You are reminded that the excess capacity issue is only a temporary fix in that it provides for a 10-year reprieve. Thereafter, we may not be allowed the excess capacity which will force the City to review other alternatives to address our overall capacity.

In the meantime, we will continue to invest in system maintenance projects that will further reduce inflow and infiltration. Despite this delay, the City is still undertaking projects that have the effect of further tightening our sanitary sewer system. The funds allocated to infrastructure improvements, however, may only serve as a transfer account if we continue to see reduced revenues. This will impact our efforts to tighten our system.

# **City of Fraser, Michigan**

## **Management's Discussion and Analysis (Continued)**

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### **The City's Funds**

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local street revenue sharing, accounting for drug forfeiture revenue and expenditures, capital projects, and voted debt retirement funds.

The General Fund pays for most of the City's governmental services, the most significant being the public safety department, for which the City incurred expenditures of approximately \$7.9 million. The general operating millage levied by the City supports not only public safety funds but other major operating costs such as funding general government administration, recreation and community development, library, and others. The general operating millage does not support other costs such as water and sewer, Special Assessment Debt retirement, or General Obligation Bond issues supported by millage or fees.

It will continue to be noted in this management's discussion and analysis that retiree health care is becoming an increasingly larger appropriation of the general operating budget since it has not been prefunded in past years. Retiree healthcare costs will continue to become an increased burden to the General Fund in future years as costs continue to increase and the City is required to comply with new accounting standards that require the City to record a liability for future retiree health care, similar to the liabilities recorded by for-profit corporations during the 2008-2009 fiscal year. Expenditures for retiree health care are expected reach \$1,500,000 for the 2008-2009 fiscal year.

In addition to the above, the City's pension system continues to draw a huge amount of funding to satisfy the defined benefit pension system for City employees. For the 2008-2009 fiscal year, we will contribute an estimated \$1,700,000 to our pension system, of which nearly \$1,325,000 will go toward the public safety employees.

### **General Fund Budgetary Highlights**

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. This is accomplished through the institution of quarterly budget reviews that not only review the current fiscal year actual numbers to the budgeted amounts but also compares the expenditures to previous fiscal years.

# **City of Fraser, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Capital Assets and Debt Administration**

At the end of fiscal year 2008, the City had \$36.7 million invested, before depreciation, in a wide range of capital assets, including land, building, public safety equipment, computer equipment, and water and sewer lines. The City is reporting infrastructure assets, which include roads, bridges, sidewalks, storm drains, and other assets in which the City has invested since its inception. The value of the infrastructure assets, net of depreciation, contained in this report is \$7.9 million at June 30, 2008.

Debt of \$8.43 million related to the construction of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets. Debt related to the acquisition and construction of the senior citizen housing complex totaling \$2.365 million is recorded as a liability in the business-type activities in the statement of net assets.

### **Economic Factors and Next Year's Budgets**

The City maintained the same tax millage rate for the 2007-2008 fiscal year as was levied in the 2006-2007 fiscal year. For the 2008-2009 fiscal year, the millage rate remained the same. This will be the third consecutive year that the millage rate has remained the same.

During the 2008-2009 fiscal year, the administration will continue to monitor revenues and expenditures and attempt to expend less than authorized by the budget. The City, as part of the 2008-2009 fiscal year budget review process, presented budgetary reductions of approximately \$788,000 under those presented in the originally submitted budget in April 2008. This level of reduction was accomplished through a combination of personnel reductions and probably the last round of smaller cuts in categories such as materials and supplies. Each department was required to submit reports on the effects of further personnel reductions and it appears that approved staff reductions have placed us at the floor of staff in relation to the ability to maintain the current level of services being offered to our residents. In other words, any further reductions in personnel will likely result in our inability to maintain the level of service our residents have been accustomed to for decades.

The budgetary reductions for the 2008-2009 fiscal year have effectively "reset" the City's long-term financial plan and have turned a projected \$1.3 million expenditures over revenues scenario for the 2009-2010 fiscal year into a potential surplus budget. This is predicated on all other assumptions in the plan being met. By resetting the plan, however, the 2009-2010 scenario only holds for one fiscal year. Thereafter, the plan projects a return to the expenditures over revenues scenario once again. Considering the current economic times, the City has accomplished an enormous task of keeping its expenditures in line with revenues while maintaining the same millage rate as the previous three fiscal years.

The City is currently entering another round of negotiations with its various bargaining units. It will be imperative that the City be successful in negotiating contracts that will further reduce the City's obligations in areas of medical costs for both active and retired employees and make progress in improving our pension plans funding level.

# **City of Fraser, Michigan**

## **Management's Discussion and Analysis (Continued)**

Not surprisingly, the City saw its first overall reduction in its taxable value in collective memory for the 2008-2009 fiscal year. This 1.44 percent reduction is projected to result in over \$123,000 in reduced tax-related revenues. Despite this drop in taxable value, the City continued to see modest residential, commercial, and industrial development in the past year. For all intents and purposes, however, development has come to nearly a standstill as the economic downturn in the housing market continues and manufacturing jobs evaporate.

As a fully developed community, our reliance on increases in tax revenues will rely solely on inflationary increases in the taxable value of properties and the “uncapping” of taxable values for property transfers. As has been expressed in the previous management's discussion and analysis, expenditures continue to outstrip increases in taxable value. With additional sources of revenue, this trend will force another round of expenditure cuts to meet revenues in the 2010-2011 fiscal year pursuant to the financial plan. This trend is likely to continue until the current economic crisis has passed.

As previously mentioned, the City is approaching the bidding phase and eventual construction of a gravity sewer system to satisfy the City's administrative consent order. This project will result in expenditures of approximately \$10 million. In addition, our aging infrastructure will require at least the same commitment of funding as in the past and, based on a five-year capital improvement program for roads, water, and sewer, we will need to create new sources of funding.

The Water and Sewer Fund will be subject to additional increases in cost for water and sewer treatment as forecasted by the City of Detroit. Currently, approximately 48 percent of water and sewer rates are used to pay for the cost of purchasing water and for the disposal of our sewage. This audit essentially shows that the Water and Sewer Fund has no remaining cash and is teetering on insolvency. Based on the first quarter of the 2008-2009 fiscal year, revenues are not keeping pace with prior years and the finance department has estimated a \$200,000 plus shortfall. This may require a mid-year rate increase to keep the fund from going bankrupt. The 15 Mile Road interceptor collapse has been repaired and we are seeing large increases in our fixed costs under sewage disposal as payment toward this project and other expected sewer projects. Also, as mentioned above, infrastructure improvements to the City's water and sewer mains must remain a commitment as we examine future rates. Currently, over 21.9 percent of water and sewer rates goes toward infrastructure improvements. This level of funding must remain a priority despite continued pressure to hold the line on future rate increases. As the City must commit to an approved user charge system by the Michigan Department of Environmental Quality, our rate increases will no longer be an optional consideration.

### **Contacting the City's Management**

This financial report is intended to provide the City's citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at city hall.

# City of Fraser, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 4,824,545	\$ 147,477	\$ 4,972,022	\$ 12,299
Receivables:				
Customers	-	1,025,940	1,025,940	-
Special assessments	269,869	-	269,869	-
Due from other governmental units	435,649	45,450	481,099	-
Internal balances	91,288	(91,288)	-	-
Prepaid costs and other assets	-	26,723	26,723	-
Restricted assets	7,985	-	7,985	-
Net pension asset (Note 10)	383,934	-	383,934	-
Capital assets - Nondepreciable (Note 5)	5,100,842	1,049,922	6,150,764	-
Capital assets - Depreciable - Net (Note 5)	15,447,015	8,934,871	24,381,886	-
<b>Total assets</b>	<b>26,561,127</b>	<b>11,139,095</b>	<b>37,700,222</b>	<b>12,299</b>
<b>Liabilities</b>				
Accounts payable	477,433	318,323	795,756	-
Accrued and other liabilities	154,231	69,147	223,378	-
Deferred revenue	7,985	-	7,985	-
Noncurrent liabilities (Note 7):				
Due within one year	1,336,581	172,903	1,509,484	-
Due in more than one year	8,337,581	2,080,989	10,418,570	-
<b>Total liabilities</b>	<b>10,313,811</b>	<b>2,641,362</b>	<b>12,955,173</b>	<b>-</b>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	13,755,799	7,741,371	21,497,170	-
Restricted:				
Local and major streets	824,716	-	824,716	-
Drug forfeiture	505,990	-	505,990	-
Debt service	473,031	-	473,031	-
Capital projects	595	-	595	-
Net pension asset	383,934	-	383,934	-
Unrestricted	303,251	756,362	1,059,613	12,299
<b>Total net assets</b>	<b>\$ 16,247,316</b>	<b>\$ 8,497,733</b>	<b>\$ 24,745,049</b>	<b>\$ 12,299</b>

# City of Fraser, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 3,379,842	\$ 1,756,881	\$ 74,116	\$ -
Public safety	8,258,881	652,430	9,687	-
Public works	3,687,176	10,793	752,822	869,774
Recreation	1,419,964	144,827	80,215	-
Community and economic development	290,863	140,043	-	-
Interest on long-term debt	278,859	-	-	-
Total governmental activities	17,315,585	2,704,974	916,840	869,774
Business-type activities:				
Sewage disposal and water supply	4,475,237	4,262,367	-	296,879
Senior housing	402,964	456,274	-	-
Total business-type activities	4,878,201	4,718,641	-	296,879
Total primary government	<u>\$ 22,193,786</u>	<u>\$ 7,423,615</u>	<u>\$ 916,840</u>	<u>\$ 1,166,653</u>
Component units:				
Economic Development Corporation	\$ 34,148	\$ 22,080	\$ -	\$ -
Downtown Development Authority	31	-	-	-
Total component units	<u>\$ 34,179</u>	<u>\$ 22,080</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Franchise fees				
Transfers				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

## Statement of Activities Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,548,845)	\$ -	\$ (1,548,845)	\$ -
(7,596,764)	-	(7,596,764)	-
(2,053,787)	-	(2,053,787)	-
(1,194,922)	-	(1,194,922)	-
(150,820)	-	(150,820)	-
(278,859)	-	(278,859)	-
(12,823,997)	-	(12,823,997)	-
-	84,009	84,009	-
-	53,310	53,310	-
-	137,319	137,319	-
(12,823,997)	137,319	(12,686,678)	-
-	-	-	(12,068)
-	-	-	(31)
-	-	-	(12,099)
11,546,005	-	11,546,005	-
1,427,895	-	1,427,895	-
365,240	24,428	389,668	234
191,442	-	191,442	-
130,038	(130,038)	-	-
13,660,620	(105,610)	13,555,010	234
836,623	31,709	868,332	(11,865)
15,410,693	8,466,024	23,876,717	24,164
<b>\$ 16,247,316</b>	<b>\$ 8,497,733</b>	<b>\$ 24,745,049</b>	<b>\$ 12,299</b>

# City of Fraser, Michigan

	General Fund	Drug Forfeiture Fund	Special Assessment - Debt Service Fund
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 2,968,099	\$ 507,693	\$ 114,670
Receivables - Special assessments	24,744	-	245,125
Due from other funds (Note 6)	91,288	-	-
Due from other governmental units	312,310	-	-
Restricted assets	7,985	-	-
Total assets	<u>\$ 3,404,426</u>	<u>\$ 507,693</u>	<u>\$ 359,795</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 388,401	\$ -	\$ -
Accrued and other liabilities	63,498	1,703	-
Deferred revenue (Note 4)	32,729	-	245,125
Total liabilities	484,628	1,703	245,125
<b>Fund Balances - Unreserved</b>			
Special Revenue Funds	-	505,990	-
Debt Service Funds	-	-	114,670
Capital Projects Funds	-	-	-
General Fund	2,919,798	-	-
Total fund balances	<u>2,919,798</u>	<u>505,990</u>	<u>114,670</u>
Total liabilities and fund balances	<u>\$ 3,404,426</u>	<u>\$ 507,693</u>	<u>\$ 359,795</u>



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**Governmental Funds  
Balance Sheet  
June 30, 2008**

Major Streets Fund	Other Governmental Funds	Total Governmental Funds
\$ 721,190	\$ 170,170	\$ 4,481,822
-	-	269,869
-	-	91,288
86,123	37,216	435,649
-	-	7,985
<u>\$ 807,313</u>	<u>\$ 207,386</u>	<u>\$ 5,286,613</u>
\$ 63,431	\$ 7,417	\$ 459,249
515	4,789	70,505
-	-	277,854
63,946	12,206	807,608
743,367	81,349	1,330,706
-	113,236	227,906
-	595	595
-	-	2,919,798
<u>743,367</u>	<u>195,180</u>	<u>4,479,005</u>
<u>\$ 807,313</u>	<u>\$ 207,386</u>	<u>\$ 5,286,613</u>

# City of Fraser, Michigan

## **Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2008**

<b>Fund Balance - Total Governmental Funds</b>	<b>\$ 4,479,005</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	19,875,016
Net pension assets in governmental activities are not reported in the funds	383,934
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	269,869
Bonds payable are not due and payable in the current period and are not reported in the funds	(8,426,984)
Compensated absences are included as a liability in governmental activities	(1,221,468)
Accrued interest is included as a liability in governmental activities	(81,519)
Internal Service Funds are included as part of governmental activities	<u>969,463</u>

<b>Net Assets of Governmental Activities</b>	<b><u>\$ 16,247,316</u></b>
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# City of Fraser, Michigan

	General Fund	Drug Forfeiture Fund	Special Assessment - Debt Service Fund
<b>Revenue</b>			
Property taxes	\$ 11,146,377	\$ -	\$ -
Federal sources	109,702	-	-
State sources	1,420,806	-	-
Interest on investments	292,384	15,584	23,907
Special assessments	-	-	74,694
District Court and Violations Bureau	918,673	-	-
Licenses, permits, and registrations	139,943	-	-
Other revenue	1,264,097	224,047	-
Total revenue	15,291,982	239,631	98,601
<b>Expenditures</b>			
Current:			
General government	2,803,804	-	-
Public safety	7,919,643	189,017	-
Public works	1,367,790	-	-
City parks and recreation	823,564	-	-
Other functions	1,279,696	-	-
Capital outlay	-	100,914	-
Debt service	-	-	94,890
Total expenditures	14,194,497	289,931	94,890
<b>Excess of Revenue Over (Under) Expenditures</b>	1,097,485	(50,300)	3,711
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	(1,321,537)	-	-
Proceeds from sale of capital asset	-	580	-
Total other financing sources (uses)	(1,321,537)	580	-
<b>Net Change in Fund Balances</b>	(224,052)	(49,720)	3,711
<b>Fund Balances - Beginning of year</b>	3,143,850	555,710	110,959
<b>Fund Balances - End of year</b>	<u>\$ 2,919,798</u>	<u>\$ 505,990</u>	<u>\$ 114,670</u>

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2008**

Major Streets Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 406,847	\$ 11,553,224
-	-	109,702
525,705	227,117	2,173,628
21,026	4,967	357,868
-	100	74,794
-	-	918,673
-	-	139,943
-	100,381	1,588,525
546,731	739,412	16,916,357
-	-	2,803,804
-	-	8,108,660
719,094	756,109	2,842,993
-	-	823,564
-	-	1,279,696
-	-	100,914
-	1,113,331	1,208,221
719,094	1,869,440	17,167,852
(172,363)	(1,130,028)	(251,495)
150,000	1,120,985	1,270,985
(40,000)	-	(1,361,537)
-	-	580
110,000	1,120,985	(89,972)
(62,363)	(9,043)	(341,467)
805,730	204,223	4,820,472
<b>\$ 743,367</b>	<b>\$ 195,180</b>	<b>\$ 4,479,005</b>

# City of Fraser, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** \$ (341,467)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	874,817
Depreciation expense	(1,272,578)

Donated assets do not provide current financial resources and are therefore not recorded in governmental funds; in the statement of activities, these donations are recorded as capital contributions

869,774

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end

(77,706)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

827,998

Accrued interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds

19,376

Increase in accumulated employee compensated absences is recorded when earned in the statement of activities

(68,209)

Internal Service Funds are also included as governmental activities

4,618

**Change in Net Assets of Governmental Activities** \$ 836,623

# City of Fraser, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Business-type Activities			Governmental
	Major Funds			Activity
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 3)	\$ -	\$ 147,477	\$ 147,477	\$ 342,723
Receivables - Customers	1,025,940	-	1,025,940	-
Due from other governmental units	45,450	-	45,450	-
Total current assets	1,071,390	147,477	1,218,867	342,723
Noncurrent assets:				
Other assets	-	26,723	26,723	-
Capital assets - Net (Note 5)	6,535,040	3,449,753	9,984,793	672,841
Total noncurrent assets	6,535,040	3,476,476	10,011,516	672,841
Total assets	7,606,430	3,623,953	11,230,383	1,015,564
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	316,206	2,117	318,323	18,184
Due to other funds	91,288	-	91,288	-
Accrued and other liabilities	12,693	56,454	69,147	2,207
Current portion of provision for compensated absences (Note 7)	7,903	-	7,903	13,217
Current portion of long-term debt (Note 7)	-	165,000	165,000	-
Total current liabilities	428,090	223,571	651,661	33,608
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	2,567	-	2,567	12,493
Long-term debt - Net of current portion (Note 7)	-	2,078,422	2,078,422	-
Total noncurrent liabilities	2,567	2,078,422	2,080,989	12,493
Total liabilities	430,657	2,301,993	2,732,650	46,101
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	6,535,040	1,371,331	7,906,371	659,624
Unrestricted	640,733	(49,371)	591,362	309,839
Total net assets	<u>\$ 7,175,773</u>	<u>\$ 1,321,960</u>	<u>\$ 8,497,733</u>	<u>\$ 969,463</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# City of Fraser, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Business-type Activities			Governmental
	Major Funds		Total	Activity
	Water and Sewer	Senior Citizen Housing Complex	Enterprise Funds	Internal Service Fund
<b>Operating Revenue</b>				
Charges for services	\$ 4,126,289	\$ -	\$ 4,126,289	\$ -
Interest and penalties	70,812	-	70,812	-
Rents	-	452,544	452,544	584,000
Other	32,162	3,730	35,892	18,793
Total operating revenue	4,229,263	456,274	4,685,537	602,793
<b>Operating Expenses</b>				
Salaries	555,566	30,710	586,276	89,211
Fringe benefits	232,862	-	232,862	69,870
Material and supplies	102,838	19,398	122,236	18,912
Gas and oil	-	-	-	181,897
Repairs and maintenance	152,656	85,330	237,986	238,088
Cost of water	784,184	-	784,184	-
Cost of sewage disposal	1,803,471	-	1,803,471	-
Utilities	19,758	45,118	64,876	-
Postage	23,246	-	23,246	-
Professional services	29,277	-	29,277	-
Insurance	-	-	-	67,110
Equipment rental	287,000	-	287,000	-
Curbside recycling	88,858	-	88,858	-
Depreciation	388,380	85,846	474,226	139,912
Miscellaneous	7,141	11,422	18,563	22,282
Total operating expenses	4,475,237	277,824	4,753,061	827,282
<b>Operating (Loss) Income</b>	(245,974)	178,450	(67,524)	(224,489)
<b>Nonoperating Revenue (Expenses)</b>				
Tap-in fees	33,104	-	33,104	-
Interest income	7,281	17,147	24,428	7,372
Interest expense	-	(125,140)	(125,140)	-
Loss on sale of fixed assets	-	-	-	1,145
Total nonoperating revenue (expenses)	40,385	(107,993)	(67,608)	8,517

# City of Fraser, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended June 30, 2008

	<u>Business-type Activities</u>			Governmental
	<u>Major Funds</u>			<u>Activity</u>
	Water and Sewer	Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
<b>(Loss) Income</b> - Before contributions	\$ (205,589)	\$ 70,457	\$ (135,132)	\$ (215,972)
<b>Capital Contributions</b>	<u>296,879</u>	<u>-</u>	<u>296,879</u>	<u>-</u>
<b>Income (Loss)</b> - Before operating transfers	91,290	70,457	161,747	(215,972)
<b>Transfers In</b>	-	-	-	220,590
<b>Transfers Out</b>	<u>(130,038)</u>	<u>-</u>	<u>(130,038)</u>	<u>-</u>
<b>Change in Net Assets</b>	(38,748)	70,457	31,709	4,618
<b>Net Assets</b> - Beginning of year	<u>7,214,521</u>	<u>1,251,503</u>	<u>8,466,024</u>	<u>964,845</u>
<b>Net Assets</b> - End of year	<u><b>\$ 7,175,773</b></u>	<u><b>\$ 1,321,960</b></u>	<u><b>\$ 8,497,733</b></u>	<u><b>\$ 969,463</b></u>



# City of Fraser, Michigan

	Enterprise - Water and Sewer
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 4,225,773
Payments to suppliers	(3,501,068)
Payments to employees	(553,516)
Other receipts	32,162
Net cash provided by (used in) operating activities	203,351
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(421,044)
Tap-in fee collections	33,104
Transfers (to) from other funds	(38,750)
Proceeds from sale of fixed asset	-
Principal and interest paid on capital debt	-
Net cash (used in) provided by capital and related financing activities	(426,690)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	7,281
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(216,058)
<b>Cash and Cash Equivalents</b> - Beginning of year	216,058
<b>Cash and Cash Equivalents</b> - End of year	\$ -
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>	
Operating (loss) income	\$ (245,974)
Adjustments to reconcile operating (loss) income to net cash from operating activities:	
Depreciation and amortization	388,380
Changes in assets and liabilities:	
Receivables	28,672
Other assets	-
Accounts payable	28,218
Accrued and other liabilities	4,055
Net cash provided by (used in) by operating activities	\$ 203,351
<b>Noncash Transactions</b> - Contribution of capital assets by developer	\$ 296,879

**Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2008**

Senior Citizen Housing Complex	Total Enterprise Funds	Internal Service Fund
\$ 453,054	\$ 4,678,827	\$ 584,000
(164,741)	(3,665,809)	(577,249)
(30,710)	(584,226)	(85,790)
3,730	35,892	18,793
261,333	464,684	(60,246)
-	(421,044)	(103,506)
-	33,104	-
-	(38,750)	220,590
-	-	5,177
(279,780)	(279,780)	-
(279,780)	(706,470)	122,261
17,147	24,428	7,372
(1,300)	(217,358)	69,387
148,777	364,835	273,336
<b>\$ 147,477</b>	<b>\$ 147,477</b>	<b>\$ 342,723</b>
\$ 178,450	\$ (67,524)	\$ (224,489)
85,846	474,226	139,912
-	28,672	-
2,525	2,525	-
(6,210)	22,008	19,444
722	4,777	4,887
<b>\$ 261,333</b>	<b>\$ 464,684</b>	<b>\$ (60,246)</b>
<b>\$ -</b>	<b>\$ 296,879</b>	<b>\$ -</b>

# City of Fraser, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2008

	Trust Funds - Pension and Other Retirement Benefits	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,316,904	\$ 957,205
Investments (Note 3):		
U.S. government securities	794,709	-
Equity securities	12,625,784	-
Corporate bonds	2,776,699	-
Mortgage obligations	4,101,235	-
Municipal bonds	52,411	-
Real estate partnerships	1,075,269	-
Mutual funds	1,898,719	-
Contributions receivable	-	-
Total assets	24,641,730	<u><u>\$ 957,205</u></u>
<b>Liabilities</b> - Accrued and other liabilities	<u>6,182</u>	<u><u>\$ 957,205</u></u>
<b>Net Assets</b> - Held in trust for pension and other postemployment benefits	<u><u>\$ 24,635,548</u></u>	

# City of Fraser, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Trust Funds - Pension and Other Retirement Benefits
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 927,816
Net decrease in fair value of investments	<u>(2,010,796)</u>
Net investment income	(1,082,980)
Contributions:	
Employer	3,012,744
Employee	<u>262,081</u>
Total contributions	<u>3,274,825</u>
Total additions	2,191,845
<b>Deductions</b>	
Benefit payments	3,492,702
Administrative expenses	45,660
Investment expense	<u>162,228</u>
Total deductions	<u>3,700,590</u>
<b>Net Decrease</b>	(1,508,745)
<b>Net Assets</b> - Beginning of year	<u>26,144,293</u>
<b>Net Assets</b> - End of year	<u><u>\$ 24,635,548</u></u>

## City of Fraser, Michigan

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### Component Units Statement of Net Assets June 30, 2008

	Economic Development Corporation	Downtown Development Authority	Total
<b>Assets</b> - Cash and investments	\$ 7,357	\$ 4,942	\$ 12,299
<b>Liabilities</b> - Accrued and other liabilities	-	-	-
<b>Net Assets</b> - Unrestricted	<u>\$ 7,357</u>	<u>\$ 4,942</u>	<u>\$ 12,299</u>

## City of Fraser, Michigan

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		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants/ Contributions
Economic Development Corporation - Public works and streets	\$ 34,148	\$ 22,080	\$ -
Downtown Development Authority - Public works	31	-	-
Total governmental activities	<u>\$ 34,179</u>	<u>\$ 22,080</u>	<u>\$ -</u>

**General Revenues - Interest**

**Change in Net Assets**

**Net Assets - Beginning of year**

**Net Assets - End of year**

**Component Units  
Statement of Activities  
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets		
Economic Development Corporation	Downtown Development Authority	Total
\$ (12,068)	\$ -	\$ (12,068)
-	(31)	(31)
(12,068)	(31)	(12,099)
77	157	234
(11,991)	126	(11,865)
19,348	4,816	24,164
<b><u>\$ 7,357</u></b>	<b><u>\$ 4,942</u></b>	<b><u>\$ 12,299</u></b>

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of City of Fraser, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

**Blended Component Units** - The City of Fraser, Michigan Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as part of the Senior Housing Fund because its primary purpose is to finance and construct the City's senior citizen housing.

The City's employee retirement system has also been blended into the City's financial statements. The system is governed by an 11-member pension board that includes the plan trustee chosen by the City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

**Discretely Presented Component Units** - The following component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 10 individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. The Authority does not have separately issued financial statements.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is selected by the City Council. The Corporation does not have separately issued financial statements.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Drug Forfeiture Fund (a Special Revenue Fund) accounts for the revenues and associated expenditures generated through drug seizure and related drug enforcement activities.
- The Special Assessment Fund (a Debt Service Fund) accounts for special assessment district revenues collected to make principal and interest payments on the 1996 Special Assessment Bonds.
- The Major Streets Fund (a Special Revenue Fund) accounts for the revenues and associated expenditures for repair and maintenance of major streets within the City.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

- The Senior Citizen Housing Complex Fund accounts for activity of the senior citizen housing center.

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for vehicle and equipment rental provided to other departments of the City on a cost reimbursement basis.
- The Pension Trust Fund and Retiree Health Care Fund account for the activities of the retirement systems, which accumulate resources for pension benefit payments to qualified employees, and for medical benefits provided to employees during retirement, respectively.
- The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Major Streets Fund, Local Streets Fund, General Obligation Fund, Water and Sewer Fund, Internal Service Fund, and Special Assessment Fund (a Capital Projects Fund) is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

**Prepaid Costs and Other Assets** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets** - An outside developer of property within the City constructed a retention pond and remitted funds to the City to cover estimated future maintenance costs. This amount has been classified as a restricted asset. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20-30 years
Water and sewer distribution systems	25-30 years
Buildings and building improvements	20-50 years
County road improvements	5-20 years
Vehicles	5-20 years
Machinery and equipment	5-20 years
Furniture and fixtures	5-15 years

**Compensated Absences** - It is the City's policy to permit certain employees to accumulate earned but unused sick, vacation, and personal pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity/Net Assets** - In the fund financial statements, governmental funds and business-type funds report reservations and restrictions of fund balance and net assets for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund equity and net assets represent tentative management plans that are subject to change. At June 30, 2008, all unrestricted governmental fund balance remained undesignated.

At June 30, 2008, the City designated \$84,350 of Water and Sewer Fund net assets for the purchase of future water meters. The remaining \$556,383 of unrestricted net assets remains undesignated.

**Property Tax Revenue** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2007 ad valorem tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$611 million, on which ad valorem taxes levied consisted of 16.1855 mills for operating purposes, 0.60 mills for ambulance services, and 1.3527 mills for debt service. This resulted in revenue of \$9.85 million for operating, \$365,000 for ambulance services, and approximately \$823,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. Except as noted below, the budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules included in the required supplemental information are presented on the same basis of accounting used in preparing the adopted budgets. The budgets have been adopted on a fund basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The General Fund budget is adopted in a manner that does not comply with generally accepted accounting principles since retiree healthcare expenditures, totaling \$1,265,477 for the year ended June 30, 2008, are budgeted as transfers out rather than expenditures of the various functional departments of the City. In addition, the City budgets transfers between funds as resources and charges to appropriations instead of other financing sources/uses. A comparison of the actual results of operations to the General Fund, Major Streets Funds, and Drug Forfeiture Fund budgets as adopted by the City Council is available at the clerk’s office for inspection.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund	\$ 15,249,433	\$ 15,516,034
Major Streets Fund	733,144	759,094

The General Fund variance was primarily the result of tax appeal settlements that were not part of the amended budget. The Major Streets Fund variance was due to expenses related to the Masonic Boulevard reconstruction project that were incurred prior to the anticipated start of the project due to advanced funding received from the Jobs Now program.

**State Construction Code Fees** - The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. For the year ended June 30, 2008, building department revenue and expenditures totaled approximately \$113,000 and \$234,000, respectively, which resulted in an excess of expenditures over revenue of approximately \$121,000 for this period. Since January 1, 2000, each year's expenditures have exceeded revenues within the City's building department.

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units (the City) to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.



### **Note 3 - Deposits and Investments (Continued)**

The Pension Trust Fund and Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's investment policy adopted by the Council limits investments to those listed under the State's statutory authority as noted above. At June 30, 2008, the City's deposits and investments are in accordance with statutory authority.

The City's Pension Trust Fund and Retiree Health Care Fund investment policy, adopted by the City's pension board, limits investments to those listed under the State's statutory authority as noted above. The policy places further restrictions within the statutory limits that are discussed in greater detail below. At June 30, 2008, the deposits in the Pension Trust Fund and Retiree Health Care Fund are in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk - City-wide Bank Deposits and Investments**

Custodial credit risk is the risk that in the event of a third-party custodian's failure, the City's deposits and investments may not be returned. The City's investment policy requires that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt. At year end, the City had approximately \$4.5 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 3 - Deposits and Investments (Continued)

#### Custodial Credit Risk of Investments - Pension Trust and Retiree Health Care Funds

The City's Pension Trust and Retiree Health Care Funds do not have an investment policy for custodial credit risk.

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty or by its trust department or agent but not in the City's name:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	How Held
United States government agency securities	\$ -	\$ 3,432,825	Counterparty
United States government bonds	-	794,709	Counterparty
Municipal bonds	-	52,411	Counterparty
Corporate bonds	-	2,776,699	Counterparty
Mutual funds	-	1,898,719	Counterparty
Equity securities	-	12,625,784	Counterparty
Money market	-	804,424	Counterparty
Real estate partnerships	-	1,075,269	Counterparty
Commercial mortgage obligations	-	668,410	Counterparty
Total uninsured and unregistered	<u>\$ -</u>	<u>\$ 24,129,250</u>	

### Note 3 - Deposits and Investments (Continued)

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's and the pension and retiree healthcare investment policies do not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value of City-wide Deposits and Investments	Fair Value of Pension Trust and Retiree Health Care Funds	Weighted Average Maturity
United States government agency securities	\$ -	\$ 3,432,825	20.6 years*
United States government bonds	-	794,709	10.8 years*
Corporate bonds	-	2,776,699	6.8 years*
Commercial mortgage obligations	-	668,409	27.0 years*

\* Governmental agency securities and all bonds are subject to monthly or quarterly principal and interest payments. The weighted average maturity is based on the expected date of the last principal and interest payment. These investments are callable and have interest rates ranging from 0 percent to 11.25 percent.

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The City's Pension Trust and Retiree Health Care Funds limit investments in nonconvertible bonds at the time of purchase to a rating of Baa or greater by Moody's and Standard and Poor's. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
United States government agency securities:			
Federal Home Loan Mortgage Corporation	\$ 1,480,505	AAA	S&P
Fannie Mae	1,952,320	AAA	S&P
Corporate bonds	2,776,699	BBB- to AAA	S&P
Municipal bonds	52,411	AA	Fitch
Commercial mortgage obligations	668,409	AAA	S&P/Moody's
Bank investment pool	513,950	A1/PI	S&P/Moody's
Bank investment pool	799,000	A1+/PI	S&P/Moody's

### Note 3 - Deposits and Investments (Continued)

#### Concentration of Credit Risk - City-wide Bank Deposits and Investments

The City places limits on deposits maintained at any given financial institution to no more than 50 percent of the City's total deposits.

#### Concentration of Credit Risk - Pension Trust and Retiree Health Care Funds

The City's Pension Trust and Retiree Health Care Funds limit investments in Baa rated bonds to no greater than 15 percent of the fixed income section of the portfolio. No more than 5 percent of the total asset portfolio may be invested in a single fixed income security and no more than 10 percent of the total portfolio may be invested in securities of a governmental agency that are not fully backed by the United States government. The funds' target investments in equity securities are between 40 percent and 60 percent of the portfolio and no more than 2 percent of the total portfolio shall be invested in a single equity security. At June 30, 2008, the City's pension fund maintained investments in the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association totaling approximately 7.9 percent and 6.0 percent, respectively, of the pension fund's total investments.

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 269,869	\$ -
Other local payment received prior to meeting all eligibility requirements	<u>-</u>	<u>7,985</u>
Total	<u><u>\$ 269,869</u></u>	<u><u>\$ 7,985</u></u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land and land improvements	\$ 5,078,927	\$ 21,915	\$ -	\$ 5,100,842
Capital assets being depreciated:				
Roads and sidewalks	72,019,259	1,440,492	(653,508)	72,806,243
County road improvements	486,647	-	(18,447)	468,200
Buildings and improvements	6,238,131	82,356	-	6,320,487
Vehicles	4,331,403	168,912	(117,070)	4,383,245
Machinery and equipment	1,271,173	125,875	(103,302)	1,293,746
Furniture and fixtures	274,291	-	-	274,291
Subtotal	84,620,904	1,817,635	(892,327)	85,546,212
Accumulated depreciation:				
Roads and sidewalks	64,678,107	926,349	(653,508)	64,950,948
Buildings and improvements	1,323,084	145,079	-	1,468,163
Vehicles	2,687,809	214,233	(113,040)	2,789,002
Machinery and equipment	733,639	89,315	(103,302)	719,652
Furniture and fixtures	152,365	19,067	-	171,432
Subtotal	69,575,004	1,394,043	(869,850)	70,099,197
Net capital assets being depreciated	15,045,900	423,592	(22,477)	15,447,015
Net capital assets	<u>\$ 20,124,827</u>	<u>\$ 445,507</u>	<u>\$ (22,477)</u>	<u>\$ 20,547,857</u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in progress	-	212,879	-	212,879
Subtotal	837,043	212,879	-	1,049,922
Capital assets being depreciated:				
Water and sewer distribution systems	13,536,877	459,594	-	13,996,471
Buildings and building improvements	3,850,292	-	-	3,850,292
Subtotal	17,387,169	459,594	-	17,846,763
Accumulated depreciation:				
Water and sewer distribution systems	7,297,973	388,380	-	7,686,353
Buildings and building improvements	1,139,693	85,846	-	1,225,539
Subtotal	8,437,666	474,226	-	8,911,892
Net capital assets being depreciated	8,949,503	(14,632)	-	8,934,871
Net capital assets	<u>\$ 9,786,546</u>	<u>\$ 198,247</u>	<u>\$ -</u>	<u>\$ 9,984,793</u>

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 236,670
Public safety	122,589
Public works	815,997
Recreation and culture	78,875
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>139,912</u>
Total governmental activities	<u>\$ 1,394,043</u>
<b>Business-type activities:</b>	
Water and sewer	\$ 388,380
Senior Housing Center	<u>85,846</u>
Total business-type activities	<u>\$ 474,226</u>

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables and Transfers

#### Interfund Receivables and Payables

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 91,288

This balance represents borrowings from the General Fund to cover current expenditures in the Water and Sewer Fund above available resources.

#### Interfund Transfers

The composition of interfund transfers out is as follows:

<u>Fund Transferred From</u>	<u>Fund Transferred to</u>	<u>Amount</u>
<b>Governmental Activities</b>		
General Fund	Nonmajor governmental funds	\$ 950,947
General Fund	Major Streets Fund	150,000
General Fund	Internal Service Fund	220,590
Major Streets Fund	Nonmajor governmental funds	<u>40,000</u>
Total governmental transfers out		1,361,537
<b>Business-type Activities</b>		
Water and Sewer Fund	Nonmajor governmental funds	<u>130,038</u>
Total transfers out reported in governmental and proprietary funds		<u><u>\$ 1,491,575</u></u>

During 2008, the City's General Fund made significant transfers to the Debt Service Fund to service current year debt payments, to the major and local street Special Revenue Funds for the improvement of major and local streets, and to the Internal Service Fund for future capital acquisitions. The Water and Sewer Fund transferred funds to the Debt Service Funds for debt service.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
1998 Unlimited Tax General Obligation							
City Hall Bonds							
Amount of issue - \$5,750,000	4.20% -	\$200,000 -					
Maturing through 2020	4.25%	\$550,000	\$ 4,825,000	\$ -	\$ (200,000)	\$ 4,625,000	\$ 200,000
2002 Limited Tax General Obligation							
Capital Improvement Bonds							
Amount of issue - \$1,900,000	4.00% -	\$75,000 -					
Maturing through 2023	5.00%	\$175,000	1,750,000	-	(50,000)	1,700,000	75,000
2003 General Obligation Limited Tax							
Refunding Bonds							
Amount of issue - \$1,560,000	2.50% -	\$205,000 -					
Maturing through 2011	3.13%	\$245,000	1,100,000	-	(215,000)	885,000	210,000
2003 General Obligation Capital							
Improvement Bonds							
Amount of issue - \$510,000	3.40% -	\$60,000 -					
Maturing through 2013	4.50%	\$70,000	370,000	-	(50,000)	320,000	60,000
Installment purchase agreements -							
1993 Installment Purchase Agreement							
Amount of issue - \$1,865,000	5.40%	\$175,000	175,000	-	(175,000)	-	-
Maturing through 2008							



# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities (Continued)</b>							
Lease purchase agreements - Aerial Platform Fire Truck Amount of issue - \$699,980 Maturing through 2017	4.43%	\$62,998	\$ 629,982	\$ -	\$ (62,998)	\$ 566,984	\$ 62,998
Special assessment bonds - 1996 Special Assessment Bonds Amount of issue - \$1,205,000 Maturing through 2012	5.25% - 5.45%	\$75,000 - \$95,000	405,000	-	(75,000)	330,000	85,000
Total bond obligations			9,254,982	-	(827,998)	8,426,984	692,998
Other long-term obligations - Compensated absences			1,174,792	72,386	-	1,247,178	643,583
Total governmental activities			10,429,774	72,386	(827,998)	9,674,162	1,336,581
<b>Business-type Activities</b>							
General obligation bonds: 1999 Building Authority Bonds Amount of issue - \$3,235,000 Maturing through 2019	4.15% - 4.80%	\$155,000 - \$270,000	2,530,000	-	(165,000)	2,365,000	165,000
Unamortized discount and deferred charges on defeasance	-	-	(133,066)	11,488	-	(121,578)	-
Total bond obligations			2,396,934	11,488	(165,000)	2,243,422	165,000
Other long-term obligations - Compensated absences			7,831	2,639	-	10,470	7,903
Total business-type activities			2,404,765	14,127	(165,000)	2,253,892	172,903
Total			\$ 12,834,539	\$ 86,513	\$ (992,998)	\$ 11,928,054	\$ 1,509,484

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 692,998	\$ 343,805	\$ 1,036,803	\$ 165,000	\$ 105,326	\$ 270,326
2010	732,998	317,008	1,050,006	160,000	98,380	258,380
2011	802,998	287,053	1,090,051	155,000	91,530	246,530
2012	847,998	254,627	1,102,625	205,000	83,558	288,558
2013	522,998	224,350	747,348	200,000	74,448	274,448
2014-2018	3,001,994	749,946	3,751,940	1,210,000	214,677	1,424,677
2019-2023	1,825,000	144,245	1,969,245	270,000	6,480	276,480
Total	\$ 8,426,984	\$ 2,321,034	\$ 10,748,018	\$ 2,365,000	\$ 674,399	\$ 3,039,399

### **Note 7 - Long-term Debt (Continued)**

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2008, \$875,000 of bonds outstanding are considered defeased.

### **Note 8 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League risk pool for workers' compensation insurance, and has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 9 - Contingencies**

During the year ended June 30, 2002, the City received an administrative consent order from the State of Michigan Department of Environmental Quality for its alleged violation of the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451. As a result of the consent order, the Department of Environmental Quality fined the City \$210,000. The City was required to pay \$20,000 annually from April 2002 through 2004. As of June 30, 2008, all of these payments were made. The City was also required to pay the remaining \$150,000 by conducting three environmental projects to improve the existing storm and sanitary sewer system at various dates through December 31, 2006. The City completed one of these environmental projects for a total cost of approximately \$220,000 and the remaining projects are pending.

### **Note 9 - Contingencies (Continued)**

During the year ended June 30, 2002, the City issued \$1,900,000 of general obligation, limited tax bonds, which was entirely spent to improve the City's sewer system in the years ended June 30, 2003, 2004, and 2005. As of June 30, 2008, the City has completed its first phase of sewer repairs and continues to implement new projects that are aimed at reducing inflow infiltration. The City estimates it may incur total costs of approximately \$6 million to \$17 million to undertake the construction projects necessary to be in compliance with the Water Resources Protection of the Natural Resources and Environmental Protection Act, 1994, P.A. 451.

### **Note 10 - Defined Benefit Pension Plan**

**Plan Description** - The City maintains a defined benefit retirement plan consisting of the following employee groups: public safety, Department of Public Works, management employees, office and clerical workers, dispatchers, and supervisors. Each employee group is covered under a consolidated plan. The consolidated plan is a single-employer defined benefit pension plan administered by the City of Fraser's pension board. The consolidated plan does not issue a separate financial report.

**Public Safety** - The plan covers all full-time public safety employees who are members of POAM or POLC. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, public safety membership consisted of 36 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 48 current active employees.

**Department of Public Works** - The plan covers all full-time Department of Public Works employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, public works membership consisted of six retirees currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 16 current active employees.

**Management Employees** - The plan covers all full-time management employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, management membership consisted of 12 retirees and beneficiaries currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and three current active employees.

### **Note 10 - Defined Benefit Pension Plan (Continued)**

**Office and Clerical Workers** - The plan covers all full-time office and clerical employees who are members of the collective bargaining unit. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, office and clerical membership consisted of seven retirees and beneficiaries currently receiving benefits, four terminated employees entitled to benefits but not yet receiving them, and 14 current active employees.

**Dispatchers** - The plan covers all full-time dispatcher employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, dispatcher membership consisted of one terminated employee entitled to benefits but not yet receiving them, and five current active employees.

**Supervisors** - The plan covers full-time supervisory employees of the City who are not considered management or are not covered by any other collectively bargained plan. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, supervisors' membership consisted of 10 retirees and beneficiaries currently receiving benefits, five terminated employees entitled to benefits but not yet receiving them, and seven current active employees.

#### **Contributions**

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Please refer to Note 1 for further significant accounting policies.

#### **Funding Policy**

The funding policy of the plan provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan (Continued)

The following employee contributions are required under collectively bargained agreements:

Public safety	2.55 percent to 4.57 percent
Department of Public Works	3.72 percent to 5.00 percent
Office and clerical	5.00 percent
Dispatchers	4.71 percent to 5.00 percent

Management and supervisory employees are not covered under a collective bargaining agreement. They are required to make a 2 percent and 3 percent contribution, respectively.

#### Annual Pension Costs

For the year ended June 30, 2008, the City's annual pension cost and net pension obligation are as follows:

	Public Safety	Public Works	Management	Office and Clerical	Dispatchers	Supervisors	Total
Annual required contribution	\$ 1,162,219	\$ 133,969	\$ 100,092	\$ 84,251	\$ 33,910	\$ 182,780	\$ 1,697,221
Interest on net pension (asset) obligation	(23,202)	3,197	(5,179)	(3,020)	(1,116)	(2,118)	(31,438)
Adjustment to annual required contribution	27,546	(3,853)	6,242	3,640	1,345	2,553	37,473
Annual pension cost	1,166,563	133,313	101,155	84,871	34,139	183,215	1,703,256
Contributions made	(1,162,220)	(145,359)	(100,093)	(84,730)	(33,911)	(185,487)	(1,711,800)
Change in net pension (asset) obligation	4,343	(12,046)	1,062	141	228	(2,272)	(8,544)
Net pension (asset) obligation - Beginning of year	(290,616)	39,960	(46,567)	(37,751)	(13,942)	(26,474)	(375,390)
Net pension (asset) obligation - End of year	\$ (286,273)	\$ 27,914	\$ (45,505)	\$ (37,610)	\$ (13,714)	\$ (28,746)	\$ (383,934)

# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plan (Continued)

#### Three-year Trend Information of Annual Pension Cost

Year Ended	Annual Required Contribution	Percentage Contributed	Net Pension (Asset) Obligation
<b><u>Public Safety</u></b>			
Year ended June 30:			
2006	\$ 1,003,146	96	\$ (227,634)
2007	1,118,438	101	(290,616)
2008	1,162,219	100	(286,273)
<b><u>Management Employees</u></b>			
Year ended June 30:			
2006	164,989	100	(45,340)
2007	166,634	112	(46,567)
2008	100,092	100	(45,505)
<b><u>Department of Public Works Employees</u></b>			
Year ended June 30:			
2006	115,276	96	29,005
2007	161,388	93	39,960
2008	133,969	109	27,914
<b><u>Office and Clerical Workers</u></b>			
Year ended June 30:			
2006	83,637	96	(38,843)
2007	94,783	99	(37,751)
2008	84,251	101	(37,610)
<b><u>Dispatchers</u></b>			
Year ended June 30:			
2006	31,619	96	(14,156)
2007	39,210	100	(13,942)
2008	33,910	100	(13,714)
<b><u>Supervisors</u></b>			
Year ended June 30:			
2006	102,541	96	(46,950)
2007	175,504	89	(26,474)
2008	182,780	101	(28,746)

#### Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 63.0 percent funded. The actuarial accrued liability for benefits was \$38.754 million, and the actuarial value of assets was \$24.447 million, resulting in an unfunded actuarial accrued liability of \$14.307 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5.995 million, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 239 percent.

### **Note 10 - Defined Benefit Pension Plan (Continued)**

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### **Actuarial Methods and Assumptions**

The annual required contribution was determined as part of an actuarial valuation at June 30, 2007 using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return and (b) projected salary increases of 5 percent per year. Both (a) and (b) include an inflation component of 5 percent. The actuarial valuation of assets was determined using the fair market value of plan assets as of the date of the actuarial valuation. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2008 was 23 years.

### **Note 11 - Postemployment Benefits**

**Plan Description** - The City provides retiree healthcare benefits and dental benefits to all full-time employees and their spouses upon retirement in accordance with labor contracts. Currently, 75 retirees are eligible (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits.)

This is a single employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

#### **Funding Policy**

The collective bargaining agreements do not require contributions from employees. Retiree healthcare costs are recognized when paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. In the current year, the City paid postemployment healthcare premiums of \$1,218,537 plus it contributed \$86,615 into a prefunded retiree healthcare fund, which is reported in this financial statement as a Pension and Other Employee Benefit Trust Fund type.

### Note 11 - Postemployment Benefits (Continued)

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2006:

Actuarial value of assets	\$ 340,018
Actuarial accrued liability	\$ 49,708,098
Unfunded AAL	\$ 49,368,080
Funded ratio	0.7%

#### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2006 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), which is expected long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after seven years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized at a level percent on a closed basis. The remaining amortization period at June 30, 2006 was 30 years.



# City of Fraser, Michigan

## Notes to Financial Statements June 30, 2008

### Note 12 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Public Safety	Management Employees	Department of Public Works	Office and Clerical Workers	Dispatchers	Supervisors	Retiree Health Care Trust
<b>Statement of Net Assets</b>							
Cash and investments	\$ 14,522,287	\$ 1,945,489	\$ 3,176,819	\$ 1,764,377	\$ 514,400	\$ 2,205,883	\$ 512,475
Liabilities	-	-	-	-	-	-	(6,182)
Total net assets	<u>\$ 14,522,287</u>	<u>\$ 1,945,489</u>	<u>\$ 3,176,819</u>	<u>\$ 1,764,377</u>	<u>\$ 514,400</u>	<u>\$ 2,205,883</u>	<u>\$ 506,293</u>
<b>Statement of Changes in Net Assets</b>							
Investment income	\$ (757,189)	\$ (103,871)	\$ (164,944)	\$ (92,692)	\$ (26,183)	\$ (114,955)	\$ 14,626
Contributions	1,316,766	105,953	182,954	116,263	47,625	204,320	1,300,944
Benefit payments	(1,452,189)	(355,180)	(138,492)	(107,048)	(9,400)	(211,856)	(1,218,537)
Other decreases	<u>(26,599)</u>	<u>(3,285)</u>	<u>(5,141)</u>	<u>(2,873)</u>	<u>(814)</u>	<u>(6,948)</u>	<u>-</u>
Change in net assets	<u>\$ (919,211)</u>	<u>\$ (356,383)</u>	<u>\$ (125,623)</u>	<u>\$ (86,350)</u>	<u>\$ 11,228</u>	<u>\$ (129,439)</u>	<u>\$ 97,033</u>

### Note 13 - Subsequent Events

Subsequent to year end, the City's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

## **Required Supplemental Information**

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# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 3,143,850	\$ 3,143,850	\$ 3,143,850	\$ -
<b>Resources (Inflows)</b>				
Property taxes:				
Property taxes	10,986,939	10,803,338	10,838,869	35,531
Payments in lieu of taxes	72,346	71,011	70,950	(61)
Property tax administration fees	170,532	183,925	183,942	17
Interest, penalties, and other	41,768	52,625	52,616	(9)
Total property taxes	11,271,585	11,110,899	11,146,377	35,478
Federal sources	98,466	110,582	109,702	(880)
State sources	1,436,765	1,418,380	1,420,806	2,426
District Court and Violations Bureau	1,106,101	946,810	918,673	(28,137)
Licenses, permits, and registrations	186,717	139,616	139,943	327
Interest income	232,522	288,236	292,384	4,148
Other:				
Recreation department	80,000	83,000	87,312	4,312
Library revenue	11,300	13,500	14,530	1,030
Other	857,695	1,147,375	1,162,255	14,880
Total resources (inflows)	15,281,151	15,258,398	15,291,982	33,584
<b>Charges to Appropriations (Outflows)</b>				
General government:				
City Council	114,865	109,318	112,261	(2,943)
City administration	347,501	351,888	347,132	4,756
City clerk	202,849	184,665	180,869	3,796
District Court	823,615	826,910	815,950	10,960
Finance	330,129	347,199	342,168	5,031
Assessor	160,505	192,265	197,375	(5,110)
Legal	142,000	127,500	126,901	599
Buildings and grounds	465,761	457,589	440,707	16,882
Total general government	2,587,225	2,597,334	2,563,363	33,971

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Charges to Appropriations (Outflows)</b> (Continued)				
Public works	\$ 1,126,260	\$ 1,115,600	\$ 1,165,314	\$ (49,714)
Public safety	6,948,322	7,237,436	7,236,285	1,151
Building inspection	234,678	227,506	234,446	(6,940)
City parks and recreation	793,893	708,878	684,362	24,516
Library	461,030	448,074	451,928	(3,854)
Planning Committee	48,700	36,000	41,417	(5,417)
Historical Commission	3,000	3,000	8,787	(5,787)
Insurance	248,000	172,000	171,897	103
Other	140,859	116,000	371,221	(255,221)
Transfers to other funds	2,588,762	2,587,605	2,587,014	591
Total charges to appropriations (outflows)	15,180,729	15,249,433	15,516,034	(266,601)
<b>Fund Balance - End of year</b>	<b>\$ 3,244,272</b>	<b>\$ 3,152,815</b>	<b>\$ 2,919,798</b>	<b>\$ (233,017)</b>

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Drug Forfeiture Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 555,710	\$ 555,710	\$ 555,710	\$ -
<b>Resources (Inflows)</b>				
Interest income	10,000	10,000	15,584	5,584
Other	<u>350,000</u>	<u>350,000</u>	<u>224,627</u>	<u>(125,373)</u>
Total resources (inflows)	360,000	360,000	240,211	(119,789)
<b>Charges to Appropriations (Outflows)</b>				
Other functions:				
Materials and supplies	138,000	152,600	165,534	(12,934)
Repairs and maintenance	5,000	10,000	10,417	(417)
Professional services	67,000	42,000	13,066	28,934
Capital outlay	<u>150,000</u>	<u>150,000</u>	<u>100,914</u>	<u>49,086</u>
Total charges to appropriations (outflows)	<u>360,000</u>	<u>354,600</u>	<u>289,931</u>	<u>64,669</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 555,710</u></u>	<u><u>\$ 561,110</u></u>	<u><u>\$ 505,990</u></u>	<u><u>\$ (55,120)</u></u>

# City of Fraser, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 805,730	\$ 805,730	\$ 805,730	\$ -
<b>Resources (Inflows)</b>				
State sources	546,000	530,000	525,705	(4,295)
Interest income	4,637	20,000	21,026	1,026
Operating transfers	<u>153,000</u>	<u>153,000</u>	<u>150,000</u>	<u>(3,000)</u>
Total resources (inflows)	703,637	703,000	696,731	(6,269)
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Salaries and fringe benefits	233,728	207,653	193,889	13,764
Materials and supplies	50,000	45,000	39,364	5,636
Repairs and maintenance	35,744	93,000	92,569	431
Equipment rental	21,000	21,000	21,000	-
Other	33,804	37,130	4,029	33,101
Capital outlay	289,361	289,361	368,243	(78,882)
Operating transfers	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>703,637</u>	<u>733,144</u>	<u>759,094</u>	<u>(25,950)</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 805,730</b></u>	<u><b>\$ 775,586</b></u>	<u><b>\$ 743,367</b></u>	<u><b>\$ (32,219)</b></u>

# City of Fraser, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress (a) June 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (Percent)
<b>Public Safety</b>						
June 30:						
2002	\$ 13,638,011	\$ 17,616,778	\$ 3,978,767	77	\$ 3,007,735	132
2003	13,014,477	19,182,822	6,168,345	68	3,416,100	181
2004	12,747,123	21,145,951	8,398,828	60	3,500,286	240
2005	12,455,054	22,417,422	9,962,368	56	3,660,309	272
2006	13,482,313	23,797,270	10,314,957	57	3,611,462	286
2007	14,644,683	24,377,221	9,732,538	60	3,528,233	276
<b>Management Employees</b>						
June 30:						
2001	2,347,477	2,994,234	646,757	78	430,349	150
2002	2,333,696	3,158,428	824,732	74	447,772	184
2003	2,283,058	3,530,586	1,247,528	65	389,903	320
2004	2,103,563	3,790,858	1,687,295	55	467,912	361
2005	2,027,983	4,052,211	2,024,228	50	460,382	440
2006	2,133,994	4,151,333	2,017,339	51	480,444	420
2007	2,208,367	4,333,245	2,124,878	51	276,422	769
<b>Department of Public Works</b>						
June 30:						
2002	2,330,995	2,294,856	(36,139)	102	878,573	-
2003	2,397,995	2,677,546	279,551	90	899,817	31
2004	2,490,777	3,006,530	515,753	83	805,720	64
2005	2,536,999	3,469,042	932,043	73	764,067	122
2006	2,804,035	3,419,046	615,011	82	796,840	77
2007	3,137,677	3,604,917	467,240	87	870,724	54
<b>Office and Clerical Workers</b>						
June 30:						
2002	1,350,687	1,540,521	189,834	88	563,156	34
2003	1,347,029	1,803,862	456,833	75	626,530	73
2004	1,378,954	2,048,400	669,446	67	653,358	102
2005	1,413,472	1,922,183	508,711	74	531,787	96
2006	1,567,939	2,018,288	450,349	78	529,193	85
2007	1,759,717	1,905,800	146,083	92	554,517	26
<b>Dispatchers</b>						
June 30:						
2002	178,229	283,220	104,991	63	226,066	46
2003	219,059	365,078	146,019	60	237,218	62
2004	269,651	441,556	171,905	61	245,358	70
2005	312,240	487,720	175,480	64	221,085	79
2006	387,630	481,068	93,438	81	200,166	47
2007	479,919	535,964	56,045	90	233,032	24
<b>Supervisors</b>						
June 30:						
2002	1,807,914	2,495,315	687,401	72	598,408	115
2003	1,838,344	2,796,438	958,094	66	599,548	160
2004	1,908,654	3,000,245	1,091,591	64	554,253	197
2005	1,919,381	3,279,431	1,360,050	59	347,085	392
2006	2,028,932	3,558,611	1,529,679	57	402,880	380
2007	2,216,284	3,996,510	1,780,226	55	532,480	334

(a) Required by Governmental Accounting Standards Board Statement No. 25

# City of Fraser, Michigan

## Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2008

Year Ended	Annual Required Contribution	Percentage Contributed
<b><u>Public Safety</u></b>		
Year ended June 30:		
2003	\$ 570,774	100
2004	694,625	99
2005	792,090	98
2006	1,003,146	96
2007	1,118,438	101
2008	1,162,219	100
<b><u>Management Employees</u></b>		
Year ended June 30:		
2003	88,703	101
2004	108,404	99
2005	161,292	87
2006	164,989	100
2007	166,634	112
2008	100,092	100
<b><u>Department of Public Works Employees</u></b>		
Year ended June 30:		
2003	106,201	100
2004	101,605	101
2005	104,969	94
2006	115,276	96
2007	161,388	93
2008	133,969	109
<b><u>Office and Clerical Workers</u></b>		
Year ended June 30:		
2003	75,184	99
2004	71,804	95
2005	79,398	96
2006	83,637	96
2007	94,783	99
2008	84,251	101
<b><u>Dispatchers</u></b>		
Year ended June 30:		
2003	29,652	99
2004	31,019	99
2005	28,340	99
2006	31,619	96
2007	39,210	100
2008	33,910	100
<b><u>Supervisors</u></b>		
Year ended June 30:		
2003	82,500	102
2004	99,033	101
2005	95,058	95
2006	102,541	96
2007	175,504	89
2008	182,780	101



# City of Fraser, Michigan

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## **Required Supplemental Information** **Pension System Schedule of Employer Contributions (Continued)** **June 30, 2008**

The retirement system supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information and actuarial assumptions used for all plans as of the latest actuarial valuation reports dated June 30, 2007 are as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of pay, closed, 23-year period
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4% to 5%
Payroll growth	5%
Inflation	None

## **Other Supplemental Information**

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# City of Fraser, Michigan

	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds	
	Local Streets	General Obligation	Motor Vehicle Highway
<b>Assets</b>			
Cash and investments	\$ 56,339	\$ 113,236	\$ -
Due from other governmental units	37,216	-	-
Total assets	<u><u>\$ 93,555</u></u>	<u><u>\$ 113,236</u></u>	<u><u>\$ -</u></u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 7,417	\$ -	\$ -
Accrued and other liabilities	4,789	-	-
Total liabilities	12,206	-	-
<b>Fund Balances - Reserved</b>	81,349	113,236	-
Total liabilities and fund balances	<u><u>\$ 93,555</u></u>	<u><u>\$ 113,236</u></u>	<u><u>\$ -</u></u>

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**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2008**

Nonmajor Capital Projects Fund			
		Total	
Special		Nonmajor	
Assessments		Governmental	
		Funds	
\$	595	\$	170,170
	-		37,216
<b>\$</b>	<b>595</b>	<b>\$</b>	<b>207,386</b>

\$	-	\$	7,417
	-		4,789
	-		12,206
	595		195,180
<b>\$</b>	<b>595</b>	<b>\$</b>	<b>207,386</b>

## City of Fraser, Michigan

	Nonmajor Special Revenue Fund	Nonmajor Debt Service Funds	
	Local Streets	General Obligation	Motor Vehicle Highway
<b>Revenue</b>			
Property taxes	\$ -	\$ 406,847	\$ -
State sources	227,117	-	-
Special assessments	-	-	-
Interest on investments	332	4,617	-
Other revenue	10,624	-	89,757
Total revenue	238,073	411,464	89,757
<b>Expenditures</b>			
Current - Public works	756,109	-	-
Debt service	-	839,124	274,207
Total expenditures	756,109	839,124	274,207
<b>Excess of Revenue Over (Under) Expenditures</b>	(518,036)	(427,660)	(184,450)
<b>Other Financing Sources</b> - Transfers in	499,000	437,535	184,450
<b>Change in Fund Balances</b>	(19,036)	9,875	-
<b>Fund Balances</b> - Beginning of year	100,385	103,361	-
<b>Fund Balances</b> - End of year	<u>\$ 81,349</u>	<u>\$ 113,236</u>	<u>\$ -</u>

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**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Nonmajor Capital Projects Fund		Total Nonmajor Governmental Funds	
Special Assessments			
\$ -	\$	406,847	
-		227,117	
100		100	
18		4,967	
-		100,381	
118		739,412	
-		756,109	
-		1,113,331	
-		-	
-		1,869,440	
118		(1,130,028)	
-		1,120,985	
118		(9,043)	
477		204,223	
<b>\$ 595</b>	<b>\$</b>	<b>195,180</b>	

# City of Fraser, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Nonmajor Governmental Funds - Special Revenue Fund - Local Streets Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 100,385	\$ 100,385	\$ 100,385	\$ -
<b>Resources (Inflows)</b>				
State sources	235,000	228,900	227,117	(1,783)
Other	7,500	12,000	10,624	(1,376)
Interest income	495	1,799	332	(1,467)
Operating transfers	<u>499,000</u>	<u>499,000</u>	<u>499,000</u>	<u>-</u>
Total resources (inflows)	741,995	741,699	737,073	(4,626)
<b>Charges to Appropriations (Outflows)</b>				
Public works:				
Salaries and fringe benefits	305,034	304,479	317,412	(12,933)
Materials and supplies	49,613	53,000	58,830	(5,830)
Repairs and maintenance	57,579	93,000	83,159	9,841
Equipment rental	27,000	27,000	27,000	-
Other	1,751	1,800	1,845	(45)
Capital outlay	<u>301,018</u>	<u>304,917</u>	<u>267,863</u>	<u>37,054</u>
Total charges to appropriations (outflows)	<u>741,995</u>	<u>784,196</u>	<u>756,109</u>	<u>28,087</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 100,385</u></u>	<u><u>\$ 57,888</u></u>	<u><u>\$ 81,349</u></u>	<u><u>\$ 23,461</u></u>

# City of Fraser, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2008

	Pension Trust	Retiree Health Care Trust	Pension and Other Employee Benefit Trust Fund Totals
<b>Assets</b> - Cash and investments	\$ 24,129,255	\$ 512,475	\$ 24,641,730
<b>Liabilities</b> - Accrued and other liabilities	-	6,182	6,182
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u>\$ 24,129,255</u>	<u>\$ 506,293</u>	<u>\$ 24,635,548</u>



# City of Fraser, Michigan

	Public Safety	Management Employees	Department of Public Works
<b>Additions</b>			
Investment income (loss):			
Interest and dividends	\$ 547,809	\$ 78,067	\$ 118,813
Net increase in fair value of investments	(1,207,721)	(167,983)	(262,666)
Less investment expenses	<u>(97,277)</u>	<u>(13,955)</u>	<u>(21,091)</u>
Net investment income	(757,189)	(103,871)	(164,944)
Contributions:			
City	1,162,220	100,093	145,359
Employee	<u>154,546</u>	<u>5,860</u>	<u>37,595</u>
Total contributions	<u>1,316,766</u>	<u>105,953</u>	<u>182,954</u>
Total additions	559,577	2,082	18,010
<b>Deductions</b>			
Benefit payments	1,452,189	355,180	138,492
Administrative expenses	<u>26,599</u>	<u>3,285</u>	<u>5,141</u>
Total deductions	<u>1,478,788</u>	<u>358,465</u>	<u>143,633</u>
<b>Net Increase (Decrease) in Net Assets</b>	(919,211)	(356,383)	(125,623)
<b>Net Assets Held in Trust for Pension and Other Benefits</b>			
Beginning of year	<u>15,441,498</u>	<u>2,301,872</u>	<u>3,302,442</u>
End of year	<u><b>\$ 14,522,287</b></u>	<u><b>\$ 1,945,489</b></u>	<u><b>\$ 3,176,819</b></u>

**Other Supplemental Information**  
**Combining Statement of Changes in Net Assets by Retiree Group**  
**Trust Funds**  
**Year Ended June 30, 2008**

Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund	Retiree Health Care Trust	Trust Fund Total
\$ 66,439	\$ 18,550	\$ 83,512	\$ 913,190	\$ 14,626	\$ 927,816
(147,336)	(41,453)	(183,637)	(2,010,796)	-	(2,010,796)
<u>(11,795)</u>	<u>(3,280)</u>	<u>(14,830)</u>	<u>(162,228)</u>	<u>-</u>	<u>(162,228)</u>
(92,692)	(26,183)	(114,955)	(1,259,834)	14,626	(1,245,208)
84,730	33,911	185,487	1,711,800	1,300,944	3,012,744
<u>31,533</u>	<u>13,714</u>	<u>18,833</u>	<u>262,081</u>	<u>-</u>	<u>262,081</u>
<u>116,263</u>	<u>47,625</u>	<u>204,320</u>	<u>1,973,881</u>	<u>1,300,944</u>	<u>3,274,825</u>
23,571	21,442	89,365	714,047	1,315,570	2,029,617
107,048	9,400	211,856	2,274,165	1,218,537	3,492,702
<u>2,873</u>	<u>814</u>	<u>6,948</u>	<u>45,660</u>	<u>-</u>	<u>45,660</u>
<u>109,921</u>	<u>10,214</u>	<u>218,804</u>	<u>2,319,825</u>	<u>1,218,537</u>	<u>3,538,362</u>
(86,350)	11,228	(129,439)	(1,605,778)	97,033	(1,508,745)
<u>1,850,727</u>	<u>503,172</u>	<u>2,335,322</u>	<u>25,735,033</u>	<u>409,260</u>	<u>26,144,293</u>
<b><u>\$ 1,764,377</u></b>	<b><u>\$ 514,400</u></b>	<b><u>\$ 2,205,883</u></b>	<b><u>\$ 24,129,255</u></b>	<b><u>\$ 506,293</u></b>	<b><u>\$ 24,635,548</u></b>

## City of Fraser, Michigan

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	<u>Public Safety</u>	<u>Management Employees</u>	<u>Department of Public Works</u>
<b>Assets</b> - Cash and investments	\$ <u>14,522,287</u>	\$ <u>1,945,489</u>	\$ <u>3,176,819</u>
<b>Net Assets</b> - Held in trust for pension benefits	\$ <u><u>14,522,287</u></u>	\$ <u><u>1,945,489</u></u>	\$ <u><u>3,176,819</u></u>

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**Other Supplemental Information**  
**Combining Statement of Net Assets by Retiree Group**  
**Pension Trust Fund**  
**Year Ended June 30, 2008**

Office and Clerical Workers	Dispatchers	Supervisors	Total Pension Trust Fund
<u>\$ 1,764,377</u>	<u>\$ 514,400</u>	<u>\$ 2,205,883</u>	<u>\$ 24,129,255</u>
<u><u>\$ 1,764,377</u></u>	<u><u>\$ 514,400</u></u>	<u><u>\$ 2,205,883</u></u>	<u><u>\$ 24,129,255</u></u>

# **City of Fraser, Michigan**

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**Report to the City Council  
June 30, 2008**



**Plante & Moran, PLLC**  
Suite 300  
19176 Hall Road  
Clinton Township, MI 48038  
Tel: 586.416.4900  
Fax: 586.416.4901  
plantemoran.com

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

We have recently completed our audit of the basic financial statements of the City of Fraser, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on internal control, results of the audit, and informational - legislative matters which impact the City:

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<b>Report on Internal Control</b>	2-3
<b>Results of the Audit</b>	4-6
<b>Informational - Legislative Matters, Etc.</b>	7-9

We are grateful for the opportunity to be of service to the City of Fraser, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

**Plante & Moran, PLLC**

David W. Herrington

## Report on Internal Control

October 28, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

Dear Mayor and Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City of Fraser, Michigan's (the "City") financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope that this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Fraser, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

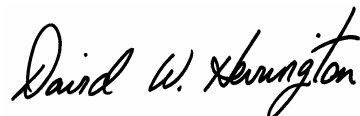
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

**Financial Statement Report Adjustments** - During the audit, we generally provide assistance in identifying and calculating certain year-end adjustments required to prepare financial statements in accordance with generally accepted accounting principles, including the requirements of GASB Statement No. 34. We also assist in gathering information required for financial statement reclassifications and footnote disclosures (such as ratings of investments). We are pleased to assist in this process - our auditors have expertise in these sorts of adjustments and reporting issues and can generally assist in a very cost-efficient manner. However, we bring this to your attention since it meets the above definition of a matter to be communicated.

This communication is intended solely for the information and use of management, the City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, reading "David W. Herrington". The signature is written in a cursive, flowing style.

David W. Herrington



## Results of the Audit

October 28, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

We have audited the financial statements of the City of Fraser, Michigan (the "City") for the year ended June 30, 2008 and have issued our report thereon dated October 28, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated May 12, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated August 20, 2008.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the actuarially determined liabilities related to the pension and other postemployment benefit obligations.

Management's estimate of the pension and other postemployment obligations is based on actuarial methods. We evaluated the key factors and assumptions used to develop the estimated obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### **Disagreements with Management**

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management's Representations**

We have requested certain representations from management that are included in the management representation letter dated October 28, 2008.

To the Honorable Mayor and  
Members of the City Council  
City of Fraser, Michigan

### **Management's Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Audit Findings or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

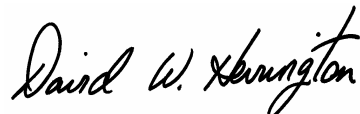
### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility relates to the City's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the management's discussion and analysis and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

This information is intended solely for the use of the City Council and management of the City of Fraser, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, reading "David W. Herrington". The signature is written in a cursive, flowing style.

David W. Herrington

## **Informational**

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**Property Tax Revenue** - As has been widely publicized, recent conditions in the real estate market are expected to have a negative impact on taxable values. The good news is that a given drop in market values will not result in an equivalent drop in taxable values because of the gap between assessed value and taxable value. On the other hand, this dampened effect is diminished each year we continue with market declines and the gap lessens between the two values. In other words, if we were to experience a theoretical 10 percent market decline for three consecutive years, the effect on taxable value (which would be different for each community) might be a 1 percent drop the first year, 4 percent the next year, and 7 percent in the third year. For this reason, it will be important to closely monitor taxable value, since this has the capacity to severely impact future years.

**Potential Legislation Impacting Property Taxes** - As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act.

The nature of the legislation has ranged from the suspension of the “pop-up” or increase in taxable value that occurs when a property sells or a “super cap” on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the City.

Lastly, more personal property tax relief is also part of the new Michigan business tax. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the state education tax (SET) and local school operating mills. Industrial personal property will receive exemptions from the six SET mills and the 18 school operating mills (for a total 24 mill exemption). Commercial personal property will be exempt from 12 of the 18 school operating mills.

**Revenue Sharing** - There appears to be some positive news relative to the state legislature’s funding of state-shared revenue. While we still remain cautious about this important revenue source, the current proposals call for a small increase in the statutory portion of funding for the year beginning October 1, 2008. However, to a great extent, actual revenue-sharing distributions will depend on the stability of the State’s budget, as well as the actual level of state tax collections. In addition, the statutory formula expired in 2007 and a new, permanent formula has not been enacted.

We will continue to monitor this revenue source and inform you of any significant changes.

**Retiree Health Care** - As you are aware, the City provides postemployment healthcare benefits to substantially all City employees. The City established a Retiree Health Care Fund under Public Act 149 to fund these postemployment benefits. The City has accumulated approximately \$506,000 in the Retiree Health Care Fund at June 30, 2008. For the year ended June 30, 2008, the annual cost of these benefits was approximately \$1,219,000, which represents an increase of approximately 8 percent from the 2007 amount. The City budgeted \$1,314,000 for retiree healthcare costs in fiscal 2009 and the annual cost is expected to increase annually beyond fiscal year 2009.

The Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, to provide guidance to local units of government for recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The promise to provide health care to retirees is very similar to the promise to provide an annual pension check. Similar to the current accounting for the pension systems, the new pronouncement will require the City to obtain an actuarial valuation of the obligation to provide retiree healthcare benefits. In addition, the City’s funding status, or the progress it has made in accumulating assets to pay for this liability, will be disclosed in the financial statements. Lastly, the City will be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability. For the year ending June 30, 2009, the actuarial determined required contribution is calculated to be \$3,372,000, which would include the pay-as-you-go cost for current retirees as well as prefunding for future benefits. The changes required under GASB Statement No. 45 will be effective in 2009. We would be happy to assist the City in further understanding the provisions of GASB Statement No. 45.

This information is intended solely for the use of the Honorable Mayor, the City Council, and management of the City of Fraser, Michigan and is not intended to be and should not be used by anyone other than these specified parties.